

News Release

Immediate release

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Canada's New Government Is Further Reducing the Tax Burden for Canadian Wineries and Breweries

During a tour of the Peninsula Ridge Estates winery in Beamsville, Ontario, the Honourable Jim Flaherty, Minister of Finance, announced that Canada's new government is taking steps to stimulate further growth within the Canadian wine and beer industries. Beginning July 1, 2006, tax relief for both industries is being increased beyond what was contemplated in Budget 2006.

"The Canadian wine and beer industries make a significant contribution to our economy through job creation, tourism and sales of high quality products," said Minister Flaherty. "After consulting with both industries, we felt it was necessary to offer more tax relief than stated in our government's first budget."

Budget 2006 proposed to exempt from federal excise duty the first 500,000 litres of wine produced and packaged by a wine licensee per year made from 100 per cent Canadian-grown agricultural products. After further consultations with the industry, the 500,000 litre threshold will now be eliminated, allowing all Canadian wineries to benefit from the exemption on all their production of this 100 per cent Canadian product.

Budget 2006 proposed to provide federal excise duty relief for Canadian brewers who have produced and packaged no more than 300,000 hectolitres of beer in the previous calendar year and do not exceed that limit in the current calendar year. After further consultations with the industry, the 300,000 hectolitre threshold will now also be eliminated.

"With the changes we are making to these tax measures, it is estimated that the amount of tax relief being provided by Canada's new government will increase from \$7 million to \$10 million annually for the wine industry and from \$13.5 million to \$18 million for the beer industry," added Minister Flaherty.

Draft legislative proposals are being released today to amend the Excise Act, 2001 and the Excise Act. Releasing the legislative proposals in draft form now provides greater clarity to taxpayers on how the proposals are intended to function. Additional details are provided in the detailed explanatory notes that are also being released.



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The draft legislation reflects comments received by the Department of Finance since the budget. Any further comments should be addressed to the Department as soon as possible, so that they can be considered before amendments are tabled in Parliament. The Government intends to introduce these excise duty measures in a bill that will consist of Budget 2006 tax proposals not already included in Bill C-13.

Comments on the draft legislation can be addressed to:

Department of Finance Canada
Sales Tax Division
Alcohol, Tobacco and Excise Legislation Section
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16th floor, East Tower
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Ottawa, Ont.
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The draft legislation and explanatory notes may be viewed on the Department of Finance website.

For further information, media may contact:

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Federal Excise Duty on Beer

Background

Excise duty is imposed under the Excise Act on beer produced in Canada. The duty is payable at the time of packaging. Exports are exempt. In the case of imported beer, the duty is levied under the Customs Tariff at the time of importation.

Budget 2006 Measures

Rate Increase to Offset GST Reduction

Budget 2006 proposed to increase alcohol excise duties on July 1, 2006, to offset the impact of the GST rate reduction. The increases in excise duties maintain the overall current federal tax burden on these products.

For regular-strength beer (greater than 2.5 per cent alcohol by volume), the excise duty was increased by 3.2 cents per litre (from 27.99 cents per litre to 31.22 cents per litre). On a typical 24-pack of 341 ml bottles of beer, the increase in excise duty amounts to about 26 cents.


Overall, the alcohol duty increases are designed to be revenue-neutral following the GST reduction. The federal tax burden on beer products will remain about the same as it is now.

Excise Relief for Canadian Beer

Budget 2006 proposed to reduce duty on beer produced by small and mid-sized Canadian brewers. The relief would apply to brewers producing no more than 300,000 hectolitres per year. The relief would begin at 90 per cent for the first 2,000 hectolitres and decline in stages to a reduction of 15 per cent in the excise duty rate on production from 50,001 to 75,000 hectolitres per year. After consultation with industry, it was decided to eliminate the 300,000 hectolitre qualification threshold to expand the scope of the relief to include all Canadian brewers. The relief will come into effect on July 1, 2006.

Expansion of the relief will help the competitiveness of Canadian brewers by reducing the excise duty on their product (as of July 1, 2006). All Canadian brewers will enjoy excise duty savings of about \$2.30 on a 24-pack of 341 ml bottles on their first 2,000 hectolitres of production per year.

The estimated value of the additional relief is \$4.5 million, for total tax savings of nearly \$18 million in the first full year of this measure.



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Federal Excise Duty on Wine

Background

Excise duty is imposed under the Excise Act, 2001 on wine produced in Canada. The duty is imposed on the product at the time of packaging. Exports are exempt. In the case of imported wine, the duty is levied under the Customs Tariff at the time of importation. All producers and importers are required to hold a licence under the Act. Payment of the duty is deferred if the wine is placed in the producer's excise warehouse or delivered to the excise warehouse of a provincial liquor board.

Budget 2006 Measures

Rate Increase to Offset GST Rate Reduction

Budget 2006 proposed to increase alcohol excise duties on July 1, 2006, to offset the impact of the goods and services tax (GST) rate reduction. The increases in excise duties maintain the overall current federal tax burden on these products.

The excise duty on wine with greater than 7 per cent alcohol by volume was increased by 10.8 cents per litre (from 51.22 cents per litre to 62 cents per litre). On a typical 750 ml bottle of wine, the increase in excise duty amounts to about 8 cents.

Overall, the alcohol duty increases are designed to be revenue-neutral following the GST reduction. The federal tax burden on wine products will remain about the same as it is now.

Excise Relief for 100 Per Cent Canadian Wine

Budget 2006 proposed to exempt from duty the first 500,000 litres of wine produced and packaged by a wine licensee per year made from 100 per cent Canadian-grown agricultural product. After consultation with industry, it was decided to eliminate the 500,000 litre threshold and exempt all wine produced in Canada that is made from 100 per cent Canadian-grown agricultural product. The relief will come into effect on July 1, 2006.

Expansion of the relief will help the competitiveness of vintners of 100 per cent Canadian wine by reducing the excise duty on their product by 62 cents per litre (as of July 1, 2006). On a typical 750 ml bottle of wine, the relief will provide excise duty savings of 46.5 cents per bottle for producers of 100 per cent Canadian wines.

The estimated value of the additional relief is \$3 million per year, for total tax savings of over \$10 million in the first full year of this measure.

BACKGROUNDER

Canada's Alcoholic Beverages Industry

A ready supply of high-quality raw ingredients, innovative processing techniques, and the right climate have contributed to a highly successful alcoholic beverages industry in Canada. It's a growing industry that directly employs more than 15,000 Canadians, producing quality spirits, beers and wines. The industry generates thousands of additional jobs through demands for goods and services, and has a major economic impact on our country.

By 2003, Canada's alcoholic beverages industry annually produced nearly \$1.4 billion worth of spirits, almost \$4.2 billion in beer and about \$2 billion worth of wine. Of this production, Canada exported \$897.2 million in distilled spirits, beer and wine – \$503 million in distilled spirits, more than \$332 million in beer, and more than \$62 million in wine exports.

Innovative products, such as low-alcohol beverages, wine coolers, fruit wine coolers and hard lemonade, and ales, are gaining in popularity, both in Canada and abroad.

Wine

Canadian wines have earned a strong reputation in Canada and abroad. A notable example is Canadian Icewine, a sweet dessert wine that is celebrated around the world for its quality and has won several prestigious awards at international competitions. Canadian Icewine relies on high-quality grapes grown in a cool climate to produce its unique characteristics.

Canada's vintners primarily grow quality *Vitis Vinifera* and hybrid grape varieties such as Chardonnay, Riesling, Merlot, Pinot Noir, and Cabernet Sauvignon, allowing Canadian wines to compete successfully with European wines in terms of quality. In addition to the wineries themselves, almost all of which grow their own grapes, there are more than 600 independent grape growers supplying the industry, from 20,000 acres of Canadian vineyards.

The Canadian wine sector employs more than 3,000 people, with thousands more employed as a result of the industry's needs for raw materials, packaging and services. Current retail sales for wine, including fruit wine, perry, mead, cider, and coolers, are in the order of \$2 billion. Grape wine sales account for approximately \$1.2 billion of that amount. Tourism to Canada's wine-producing regions generates at least \$400 million a year in related tourism.

Beer

Canadian breweries produced more than \$4.1 billion of beer in 2003. More than 91% of the beer consumed in Canada is produced by Canadian breweries. This is due primarily to the product's taste and quality, as well as the sector's success in establishing licensing agreements with foreign beer companies.

Canada is the world's sixth largest exporter of beer, on a volume basis. Canada also supplies about 30% of the world's barley to foreign breweries which recognize the very high quality of Canadian malting barley.

Brewers directly employ more than 10,000 people in Canada. Thousands more jobs are generated in almost 300 other Canadian industries as a result of Canadian brewers' need for ingredients, materials and services.

Government

Agriculture and Agri-Food Canada supports Canada's alcoholic beverages industry through funding for generic international development efforts, financial and human resource assistance with the development of national wine standards, and research into the development of new varieties of grain, and new methods, tests and procedures to improve production.

Health Canada regulates the contents of all alcoholic beverages through the *Food and Drugs Act*.

The Canadian Food Inspection Agency monitors domestic and imported alcohol products for compliance with net quantity, label and container regulations.

For more detailed information

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LEGISLATIVE PROPOSALS AMENDING THE *EXCISE ACT*, 2001 AND
THE *EXCISE ACT* IN RESPECT OF CANADIAN WINE AND BEER

LEGISLATIVE PROPOSALS AMENDING THE *EXCISE ACT, 2001* AND THE *EXCISE ACT* IN RESPECT OF CANADIAN WINE AND BEER

EXCISE ACT, 2001

1. (1) Subsection 134(3) of the *Excise Act, 2001* is replaced by the following:

Exceptions

(3) Subsection (1) does not apply to

(a) wine that is produced in Canada and composed wholly of agricultural or plant product grown in Canada; and

(b) wine that is produced by an individual for their personal use and that is consumed in the course of that use.

(2) Subsection (1) applies to wine taken for use after June 2006.

2. (1) Paragraph 135(2)(a) of the Act is replaced by the following:

(a) produced in Canada and composed wholly of agricultural or plant product grown in Canada;

(a.1) produced and packaged by an individual for their personal use; or

(2) Subsection (1) applies to wine packaged after June 2006.

EXCISE ACT

3. (1) Section 2 of the *Excise Act* is amended by adding the following in alphabetical order:

“person”
« personne »

“person” means an individual, a partnership, a corporation, a trust, the estate of a deceased individual, a government or a body that is a society, a union, a club, an association, a commission or another organization of any kind.

(2) Subsection (1) is deemed to have come into force on July 1, 2006.

4. (1) The Act is amended by adding the following after section 2.1:

Related
persons

2.2 For the purposes of this Act, persons are related to each other if they are related persons within the meaning of subsections 251(2) to (6) of the *Income Tax Act*, except that

(a) a reference in those subsections to “corporation” shall be read as a reference to “corporation or partnership”; and

(b) a reference in those subsections to “shares” or “shareholders” shall, in respect of a partnership, be read as a reference to “rights” or “partners”, respectively.

Associated
persons

2.3 (1) For the purposes of this Act, a particular corporation is associated with another corporation if, by reason of subsections 256(1) to (6) of the *Income Tax Act*, the particular corporation is associated with the other corporation for the purposes of that Act.

Corporations
controlled by
same person or
group

(2) For the purposes of this Act, a person other than a corporation is associated with a particular corporation if the particular corporation is controlled by the person or by a group

of persons of which the person is a member and each of whom is associated with each of the others.

Partnership or
trust

(3) For the purposes of this Act, a person is associated with

(a) a partnership if the total of the shares of the profits of the partnership to which the person and all other persons who are associated with the person are entitled is more than half of the total profits of the partnership, or would be more than half of the total profits of the partnership if it had profits; and

(b) a trust if the total of the values of the interests in the trust of the person and all other persons who are associated with the person is more than half of the total value of all interests in the trust.

Association
with third
person

(4) For the purposes of this Act, a person is associated with another person if each of them is associated with the same third person.

(2) Subsection (1) is deemed to have come into force on July 1, 2006.

5. (1) Subsection 170(1) of the Act is replaced by the following:

Duties

170. (1) There shall be imposed, levied and collected on every hectolitre of beer or malt liquor the duties of excise set out in Part II of the schedule, which duties shall be paid to the collector as provided in this Act.

(2) Subsection (1) is deemed to have come into force on July 1, 2006.

6. (1) The Act is amended by adding the following after section 170:

Reduced rates
— production

170.1 (1) With respect to the first 75,000 hectolitres of beer and malt liquor brewed in Canada per year by a licensed brewer and any person related or associated with the brewer, there shall be imposed, levied and collected on each of those hectolitres the duties of excise set out in Part II.1 of the schedule, which duties shall be paid to the collector as provided in this Act, and section 170 does not apply to those hectolitres.

Reduced rates
— packaging

(2) If the beer or malt liquor described by subsection (1) is packaged by a licensed brewer (in this subsection, referred to as the “packaging brewer”) other than the licensed brewer or related or associated person referred to in that subsection, there shall be imposed, levied and collected on every hectolitre of beer or malt liquor packaged by the packaging brewer duties of excise at the rates that applied to the beer or malt liquor under subsection (1).

Exclusion of
exports and
de-alcoholized
beer

(3) In subsection (1), the reference to “first 75,000 hectolitres of beer and malt liquor brewed in Canada” does not include

(a) beer or malt liquor that is exported or deemed to be exported under section 173 of the Act; and

(b) beer or malt liquor containing not more than 0.5 % absolute ethyl alcohol by volume.

Treatment of
contract
production

(4) If, at any time, beer or malt liquor is brewed by a licensed brewer for another licensed brewer under an agreement with the other brewer, subsection (1) applies as though it had

been brewed by the brewer who has brewed the greater volume of beer and malt liquor during the year up to that time.

Election for
related or
associated
licensees

(5) If a licensed brewer is related or associated with one or more other licensed brewers, each of the brewers must file with the Minister an election in a form and manner satisfactory to the Minister that allocates the 75,000 hectolitre quantity amongst the brewers. The election must be filed no later than the filing due date of the first return in which the brewer reports duties that are imposed, levied and collected under subsection (1).

Brewer formed
by business
combination

(6) For the purposes of this section, if, in a year, two or more brewers (each of which is referred to in this section as a “predecessor brewer”) are amalgamated, merged or otherwise combined to form a new brewer, the following rules apply:

- (a) the aggregate production of beer and malt liquor of the new and predecessor brewers for that year will be used for the purposes of applying subsection (1);
- (b) the new brewer must determine the amount of duty that would have been imposed, levied and collected under subsection (1) on the aggregate production; and
- (c) the new brewer is liable for and must, within 60 days of the combination, report and pay any difference between the amount calculated under paragraph (b) and the amounts paid by the predecessor brewers.

(2) Subsection (1) is deemed to have come into force on July 1, 2006, except that, for 2006, every reference to “75,000” in section 170.1 of the Act, as enacted by subsection (1), shall be read as a reference to “37,500”.

7. (1) The Act is amended by adding the following after Part II of the schedule:

II.1 CANADIAN BEER

1. (1) On the first 2,000 hectolitres of beer and malt liquor brewed in Canada:

- (a) if it contains more than 2.5% absolute ethyl alcohol by volume, \$3.122 per hectolitre;
- (b) if it contains more than 1.2% absolute ethyl alcohol by volume but not more than 2.5% absolute ethyl alcohol by volume, \$1.561 per hectolitre; and
- (c) if it contains not more than 1.2% absolute ethyl alcohol by volume, \$0.2591 per hectolitre.

2. On the next 3,000 hectolitres of beer and malt liquor brewed in Canada:

- (a) if it contains more than 2.5% absolute ethyl alcohol by volume, \$6.244 per hectolitre;
- (b) if it contains more than 1.2% absolute ethyl alcohol by volume but not more than 2.5% absolute ethyl alcohol by volume, \$3.122 per hectolitre; and
- (c) if it contains not more than 1.2% absolute ethyl alcohol by volume, \$0.5182 per hectolitre.

3. On the next 10,000 hectolitres of beer and malt liquor brewed in Canada:

- (a) if it contains more than 2.5% absolute ethyl alcohol by volume, \$12.488 per hectolitre;

(b) if it contains more than 1.2% absolute ethyl alcohol by volume but not more than 2.5% absolute ethyl alcohol by volume, \$6.244 per hectolitre; and

(c) if it contains not more than 1.2% absolute ethyl alcohol by volume, \$1.0364 per hectolitre.

4. On the next 35,000 hectolitres of beer and malt liquor brewed in Canada:

(a) if it contains more than 2.5% absolute ethyl alcohol by volume, \$21.854 per hectolitre;

(b) if it contains more than 1.2% absolute ethyl alcohol by volume but not more than 2.5% absolute ethyl alcohol by volume, \$10.927 per hectolitre; and

(c) if it contains not more than 1.2% absolute ethyl alcohol by volume, \$1.8137 per hectolitre.

5. On the next 25,000 hectolitres of beer and malt liquor brewed in Canada:

(a) if it contains more than 2.5% absolute ethyl alcohol by volume, \$26.537 per hectolitre;

(b) if it contains more than 1.2% absolute ethyl alcohol by volume but not more than 2.5% absolute ethyl alcohol by volume, \$13.269 per hectolitre; and

(c) if it contains not more than 1.2% absolute ethyl alcohol by volume, \$2.2024 per hectolitre.

(2) Subsection (1) is deemed to have come into force on July 1, 2006, except that, for 2006,

(a) the reference to “35,000” in section 4 of Part II.1 of the schedule to the Act, as enacted by subsection (1), shall be read as a reference to “22,500”; and

(b) section 5 of Part II.1 of the schedule to the Act, as enacted by subsection (1), does not apply.

LEGISLATIVE PROPOSALS AMENDING THE *EXCISE ACT, 2001* AND THE *EXCISE ACT* IN RESPECT OF CANADIAN WINE AND BEER

EXPLANATORY NOTES

These explanatory notes are provided to assist in an understanding of the proposed amendments to the *Excise Act, 2001* and the *Excise Act*. These notes are intended for information purposes only and should not be construed as an official interpretation of the provisions they describe.

Excise Act, 2001 - Duty Relief for 100% Canadian Wine

Clause 1

Bulk wine - relief for 100% Canadian wine

EA, 2001
134(3)

Subsection 134(3) currently provides that duty does not apply to bulk wine produced by an individual for their personal consumption. This subsection is amended to provide that duty will also not apply to bulk wine produced in Canada and composed wholly of agricultural or plant product grown in Canada that is taken for use.

This amendment applies to wine taken for use after June 2006.

Clause 2

Packaged wine - relief for 100% Canadian wine

EA, 2001
135(2)(a)

Subsection 135(2) currently provides that duty is not imposed on wine that is produced and packaged by an individual for their own use, or on wine produced and packaged by a wine licensee if the sales of wine by the licensee did not exceed \$50,000 in the previous year.

This subsection is amended to provide that duty will also not apply to wine that is produced and packaged in Canada and composed wholly of agricultural or plant product grown in Canada.

This amendment applies to wine packaged after June 2006.

Excise Act - Duty Relief for Canadian Beer

Clause 3

Definition - person

EA

2

The term “person” is used to refer to governments, individuals and all forms of organizations. This definition is added for clarification and is consistent with the definition of “person” in other federal taxing statutes.

This amendment comes into force on July 1, 2006.

Clause 4

Associated and related persons

EA

2.2 and 2.3

New rules with respect to related and associated persons are introduced for the purposes of determining eligibility for the special rates of duty on beer and malt liquor imposed under new section 170.1 of the Act. The new reduced rates are set out under the new Part II.1 of the schedule to the Act.

Section 2.2 - Related persons

This section provides that persons are generally related to each other for the purposes of the *Excise Act* if, at a particular time, they are considered to be related person pursuant to subsections 251(2) to (6) of the *Income Tax Act*.

Section 2.3 - Associated persons

Subsection (1) provides that a particular corporation is associated with another corporation for the purposes of the *Excise Act* if they are considered to be associated pursuant to subsections 256(1) to (6) of the *Income Tax Act*.

Subsection (2) provides that a person (other than a corporation) is associated with a particular corporation if that person or a group of associated persons of which the person is a member controls the corporation.

Subsection (3) sets out the circumstances in which a person will be treated as being associated with a partnership and with a trust.

Subsection (4) states that a person is associated with another person if both persons are associated with a third person.

These amendments come into force on July 1, 2006.

Clause 5

Duties

EA
170(1)

Subsection 170(1) currently provides that duty is imposed on beer and malt liquor at the rates set out in the schedule. This subsection is amended to refer to the rates of duty set out in Part II of the schedule. This amendment is consequential to the addition of new Part II.1 of the schedule, which sets out the rates of duty on beer and malt liquor under new section 170.1.

This amendment comes into force on July 1, 2006.

Clause 6

Reduced rates - Canadian beer

EA
170.1

New section 170.1 provides for reduced rates of duty on the first 75,000 hectolitres of Canadian-produced and packaged beer and malt liquor. It also sets out rules determining how the reduced rates will apply to various production and packaging arrangements and changes in business structures.

Subsection (1) imposes duty on the first 75,000 hectolitres of beer and malt liquor produced in Canada per year by a licensed brewer and any related or associated person at the rates set out in the new Part II.1 of the schedule to the Act.

Subsection (2) requires, where beer or malt liquor described in subsection (1) is packaged by a brewer other than the brewer referred to in that subsection, that duty be imposed at the rates that applied to that beer or malt liquor under subsection (1).

Subsection (3) provides that beer or malt liquor that is exported or deemed to be exported, or containing not more than 0.5 % absolute ethyl alcohol by volume, will not be taken into account in determining the first 75,000 hectolitres of beer and malt liquor eligible for the reduced rates of duty set out in new Part II.1 of the schedule.

Subsection (4) sets out rules regarding the contract production of beer or malt liquor. For such beer or malt liquor, the quantity produced shall be considered to have been produced by the brewer who has produced the greater volume of beer and malt liquor during the year up to that time, and duty shall be imposed at the rate that applies to that brewer.

Subsection (5) provides that where there is a family of related or associated brewers, each brewer must file an election in a form and manner satisfactory to the Minister that allocates the 75,000 hectolitre quantity among the brewers. The election must be filed no later than the filing due date of the first return in which the brewer reports duties that are imposed, levied and collected under subsection (1).

Subsection (6) sets out rules regarding a brewer formed by a business combination such as an amalgamation or merger. In such circumstances, the aggregate production of the new and predecessor brewers for that year is used for the purposes of applying subsection (1). The new brewer must determine the amount of duty that would have been imposed, levied and collected on the aggregate production volume, and is liable for (and must report and pay) any difference between the amount that would have been imposed and the amounts actually paid by the predecessor brewers within 60 days of the business combination.

These amendments come into force on July 1, 2006, except that, for 2006, every reference to “75,000” in new section 170.1 shall be read as a reference to “37,500”. This means that for 2006 only the first 37,500 hectolitres of beer and malt liquor produced in Canada by a licensed brewer after July 1, 2006 will qualify for the duty rate imposed under new section 170.1.

Clause 7

Duty on Canadian beer

EA

Schedule, Part II.1

New Part II.1 of the schedule sets out the rates of duty on the first 75,000 hectolitres of beer and malt liquor produced in Canada per year by a licensed brewer under new section 170.1 of the Act. The rates of duty vary based on the production volume of the licensed brewer. The rates also vary depending on the absolute ethyl alcohol volume of the beer or malt liquor being produced.

This amendment comes into force on July 1, 2006, except that, for 2006, the reference to “35,000” in section 4 of Part II.1 of the schedule to the Act shall be read as a reference to “22,500” and section 5 of that schedule does not apply. This means that for 2006 only the first 37,500 hectolitres of beer and malt liquor produced in Canada by a licensed brewer after July 1, 2006 will qualify for the reduced rates.